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RUEHAB/AMEMBASSY ABIDJAN 1150
RUEHLC/AMEMBASSY LIBREVILLE 1292
RUEHJL/AMEMBASSY BANJUL 0342
RUEHPU/AMEMBASSY PORT AU PRINCE 0773
RUEHPL/AMEMBASSY PORT LOUIS 0933
RUEHBH/AMEMBASSY NASSAU 0074
RUEHPC/AMEMBASSY LOME 1026

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SENSITIVE
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STATE FOR EEB/IFD/OMA
TREASURY FOR DO/IDD AND OUSED/IMF
SECDEF FOR USDP/DSCA
PASS EXIM FOR CLAIMS - MPAREDES
PASS USDA FOR CCC -- ALEUNG/WWILLER/JDOSTER
PASS USAID FOR CLAIMS -- WFULLER
PASS DOD FOR DSCS -- PBERG

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SUBJECT: PARIS CLUB - JANUARY 2008 TOUR D'HORIZON AND
NEGOTIATIONS WITH GUINEA AND THE GAMBIA

¶1. (SBU) Summary: At the Paris Club's January 22-24 session, the U.S. and other creditors signed an accord with Guinea to resume interim debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative. The Paris Club (PC) also granted The Gambia 100 percent cancellation of its eligible stock of debt after The Gambia reached HIPC completion point. During the Tour d'Horizon, Russia announced that it would sign the long-delayed bilateral debt agreement with Iraq during a February 11-12 inter-governmental economic commission meeting in Moscow. The Secretariat indicated that Paris Club negotiations with Liberia will now take place in April because the IMF Executive Board meeting to approve HIPC decision point will not occur until March. Creditors discussed an outreach strategy to inform China about the Paris Club's principles

and functions. Paris Club creditors also discussed relations with Angola, Congo (Brazzaville), Cote d'Ivoire, Democratic Republic of Congo, Gabon, Grenada, Haiti, Seychelles, and Togo. Methodological topics discussed included how creditors implement HIPC interim relief, countries having no relations with the IMF or Paris Club, statutes of limitations and their application to sovereign debt, and the recent OECD discussions about sustainable lending practices. End Summary.

Angola

¶2. (U) Six of fourteen creditors have concluded bilateral agreements implementing the late interest settlement reached with Angola in December 2007. (Under the terms of the settlement, Angola committed to pay, in three installments over 26 months, \$1.8 billion of \$2.2 billion in late interest owed to Paris Club creditors.) The Secretariat noted that the settlement called for all

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agreements to be concluded before payment of the first installment planned for January 31, 2008.

Congo (Brazzaville)

¶3. (U) The IMF reported that performance under the IMF Staff-Monitored Program (SMP) during the period April-September 2007 was unsatisfactory. An IMF mission would depart in the coming weeks to negotiate a new six-month SMP to get reforms back on track before the Executive Board

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could consider a full-fledged Poverty Reduction and Growth Facility (PRGF) program. (Congo-Brazzaville reached decision point under the enhanced HIPC initiative in March 2006, but its PRGF program subsequently went off track, resulting in a suspension of interim relief from the Paris Club.) The World Bank reported that it had increased its lending envelope for Congo-Brazzaville from \$75 million to \$130 million. Brazil, Spain, and the UK have not yet concluded their bilateral agreements with Congo-Brazzaville implementing the April 2006 Paris Club agreement. Germany asked for more information about reported PRC financing.

Cote d'Ivoire

¶4. (U) Creditors supported the Secretariat's recommendation that Cote d'Ivoire's HIPC common reduction factor (CRF) be adjusted upward to take into account the exceptionally generous debt relief the Paris Club previously provided Cote d'Ivoire in 1998 and 2002. The IMF welcomed this course of action, noting that it was consistent with the HIPC initiative and with the Fund's uniformity of treatment policy. Recognizing the complexity of the topic and that a higher CRF will require London Club and other non-Paris Club creditors to provide deeper debt relief, Paris Club co-chairman Benoit Coeure recommended the IMF reach out to the London Club at an early stage. The IMF will also use its forthcoming HIPC paper to convey this information. The Secretariat reported Cote d'Ivoire's advisors are working with the London Club. With respect to Cote d'Ivoire's macroeconomic performance, the IMF's Executive Board is scheduled to vote on a second Emergency Post-Conflict Assistance program on February 15. The IMF reported that in early 2008, Cote d'Ivoire made payments toward arrears clearance, which had to be completed by the end of that week (January 25), but still had to close its financing gap. World Bank and African Development Bank financing were still being finalized, and Cote d'Ivoire has

issued domestic and regional bonds to raise the necessary funds. An IMF mission would depart for Abidjan when 4Q 2007 data are available, perhaps in mid-March. The Fund will seek creditor data for its debt sustainability analysis. Based on preliminary calculations using end-2006 figures, Cote d'Ivoire would qualify for HIPC due to its high ratio of external debt to government revenue, although the common reduction factor would be small. It is unclear at this stage whether Cote d'Ivoire would go directly to

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HIPC decision point upon approval of a new PRGF (with performance under the EPCA counting as a track record), or receive a Naples treatment first. When asked by the Netherlands about private creditors, both the IMF and the World Bank indicated there was no evidence that so-called vulture funds held Ivorian debt.

Democratic Republic of Congo

15. (SBU) The DRC has not yet responded to the Paris Club's October 31 letter inquiring about the financial arrangement with China. The IMF said its December mission had achieved good progress. A new PRGF, which would trigger resumption of interim HIPC relief, could come to the IMF Executive Board next month, depending on the outcome of further discussions with the authorities on pending fiscal and budget issues. The IMF did not shed more light on the reported \$5 billion joint venture "protocol" that the DRC recently signed with China to finance the development of copper mines and infrastructure projects. The IMF said the composition of debt versus equity still needs to be clarified, and that the project could complicate DRC's chances of reaching completion point under the HIPC initiative. The World Bank indicated that, unless exceptions to Bank policy were made, the World Bank would soon reach its ceiling on possible interim HIPC relief for the DRC.

Gabon

16. (U) All creditors except Brazil have concluded their bilateral agreements with Gabon to implement the discounted buyback agreed in July 2007. (Brazil awaits approval from its Senate.) France, the Netherlands, and Spain have already received payment; the other creditors expect to complete the transaction at the end of January. The IMF said Gabon is financing the buyback through a \$1 billion Eurobond issue, a \$180 million bond issue on the regional Economic and Monetary Community of Central Africa (CEMAC) market, and \$500 million in fiscal reserves. The IMF reported that the first review of Gabon's Stand-By Arrangement occurred in December, and that a mission was scheduled to visit in March to conduct the IMF's Article IV evaluation.

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The Gambia

17. (U) On January 24, creditors provided The Gambia its HIPC completion point treatment. (The U.S. is not a creditor.) In line with their commitment at decision point, creditors agreed to cancel \$4.4 million of debt (calculated as of December 1999 in present value terms), including \$0.2 million in interim relief already provided. Austria, Belgium, France, and the Netherlands declined to cancel on a voluntary basis their remaining \$11.9 million

in debts incurred after July 1, 1986 (the Paris Club's "cut-off date" for The Gambia). (In a discussion among creditors, France noted that The Gambia should not be rewarded for borrowing excessively from non-Paris Club creditors -- in particular Taiwan and Kuwait.) The Gambia's Secretary of State for Finance and Economic Affairs Mousa

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Gibril Bala-Gaye expressed disappointment and hoped creditors would take to their capitals his request for cancellation of all post-cutoff date debt. He added that the February 5-6 donors conference in London would "provide a second opportunity to be more forthcoming -- as donors, not creditors." Replying to questions about The Gambia's efforts to secure comparability of treatment from non-PC creditors, he outlined high-level approaches to Taiwan (which he described as willing to consider a change in legislation to allow debt relief) and Kuwait (which he said had indicated willingness to consider PC-comparable relief). The Gambia has sent letters to other creditors and had received no replies, but expected a response from OPEC. The minister said these approaches would continue in March. The IMF reported that its latest analysis indicates that The Gambia will remain at high risk of debt distress even after fully benefiting from debt cancellation under the HIPC and Multilateral Debt Relief initiatives. The World Bank said its technical assistance to The Gambia in 2008 focuses on improving debt management.

Grenada

18. (U) The IMF said the first review of the PRGF, which was due to be completed before the end of April 2007, would not be completed for another few months at best. Key issues of concern included excessive government spending in

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2007, the need for tax reforms, and an unregulated bank. The IMF said progress had been made since it completed Grenada's Article IV evaluation, and that IMF officials will visit again in late January. With the PRGF off track, the second phase of Grenada's May 2006 rescheduling, as implemented in the U.S.-Grenada bilateral agreement signed on July 11, 2007, remains on hold. For the U.S., this means that until the second phase enters into force, the Export-Import Bank must send bills for payments scheduled on or after January 1, 2007. Creditors agreed to discuss the matter again at the March Paris Club session.

Guinea

19. (U) Following IMF and World Bank approval of a new three-year PRGF reform program, creditors agreed to a new debt treatment (Guinea's seventh) to resume interim debt relief under the HIPC initiative on "Cologne terms," normally a 90 percent cancellation of accumulated arrears and future payments on eligible debt. Given Guinea's limited capacity to pay, creditors agreed to defer until 2011 the repayment of arrears on debt contracted after January 1, 1986 (the Paris Club's "cut-off date" for Guinea) and short-term debt, as well as a portion of post-cutoff-date payments falling due during the consolidation period. In accordance with our HIPC policy, the U.S. will go beyond Cologne terms and forgive all debt payments (including arrears and late interest) that originated before the Cologne G8 Summit (June 20, 1999) and that fall due during the 2008-2010 consolidation period, provided that Guinea performs on its PRGF. The IMF anticipates that Guinea could reach its HIPC completion point by the end of 2008. The IMF highlighted Guinea's strong potential for growth, especially in the mining sector; Guinea's success in lowering inflation from 40 percent in 2006 to 10 percent

in 2007; and the country's very low level of foreign exchange reserves. The World Bank reported it had taken the highly unusual step of increasing its interim HIPC debt relief to 50 percent of the present value of Guinea's debts to the Bank, noting that Guinea will need full MDRI and HIPC debt relief, including comparable debt relief from non-Paris Club creditors, to bring its debt to a sustainable level.

Haiti

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¶10. (U) The IMF said its Executive Board would act on the second review of Haiti's PRGF in February, pending the completion of two structural performance criteria. However, the PRGF is broadly on track. Creditors will decide at the next Paris Club session in March whether to enter into force the second phase of Haiti's 2006 Paris Club agreement, which is conditioned on completion of the second PRGF review.

Iraq

¶11. (U) Russia announced its intention to sign its long-delayed bilateral agreement with Iraq implementing the 2004 Paris Club agreement at an inter-governmental economic commission with Iraqi government officials in Moscow on February 11 and 12. The Secretariat summarized its January 18 working paper on Iraq's efforts to conclude debt restructuring agreements with its non-Paris Club bilateral creditors.

¶12. (U) The Secretariat argued it would be inappropriate for creditors to endorse or even acknowledge Iraq's plan to unilaterally not recognize late interest owed to bilateral creditors that have not yet signed a debt restructuring agreement with Iraq. Canada cautioned that other debtor countries could interpret the Club's silence as assent and one day implement a similar policy toward Paris Club creditors. The IMF said the Iraqi authorities had assured Fund staff that they had no intention of repudiating Iraq's debt contracts and would continue their efforts to normalize relations with external creditors. The Secretariat reported that, in informal conversations the

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week before, it had told Iraq's advisors that the Paris Club would have difficulty approving the GOI's late interest proposal; the Secretariat had proposed not to take an official position on the matter. The GOI, the Secretariat said, was aware of the Club's position, which

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had been conveyed informally.

¶13. (U) Germany, Italy, the Netherlands, and Sweden objected to the Secretariat's recommendation to utilize European Union and European Commission fora to contact Iraq's European, non-Paris Club creditors, arguing that the

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EU had no competence in Paris Club matters. The Netherlands and Sweden said that if the Secretariat were going to send letters to some of Iraq's non-Paris Club creditors, it should send letters to all of Iraq's non-Paris Club creditors (including the Gulf countries and China) and not differentiate among them based on political factors. In calling for comparability of treatment and

full participation, the UK sought inclusion of language to the effect that non-Paris Club creditors should not sell claims to creditors that do not take part in the HIPC initiative; the Netherlands advised against the reference to HIPC, as Iraq is a special case. The Secretariat questioned whether letters to the Gulf countries would be effective, and said a letter to China could be awkward given current Paris Club outreach efforts and the fact that Iraq was reportedly close to reaching an agreement with China. In the end, the Secretariat agreed to write to all of Iraq's non-Paris Club creditors, and agreed not to ask the EU to approach Iraq's European creditors. Some European creditors, noting their own efforts, suggested bilateral demarches as an alternative. The Secretariat will hold off sending a letter to China pending the outcome of negotiations between the Iraqi and Chinese authorities.

¶14. (U) The IMF reported that Iraq's Stand-By Arrangement would be treated as a precautionary one. Under a regular SBA, Iraq could draw 40 percent of quota but does not intend to do so. Consistent with the 2004 Agreed Minute, the third phase review of the SBA is scheduled to occur no later than December 31, 2008.

Liberia

¶15. (U) The IMF reported that arrears clearance procedures were finalized and that the Executive Board had approved the necessary HIPC rule change to allow Liberia's performance on its Staff-Monitored Program to count toward HIPC decision point. An IMF mission is in the field, and work on the preliminary HIPC document is underway in preparation for approval of Liberia's three-year PRGF and HIPC decision point in mid-March. As a result, Paris Club negotiations are now likely to take place in April. The Secretariat will launch a new data call. The World Bank

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singled out the U.S. Treasury for its support in providing a bridge loan to finance the clearance of Liberia's arrears, the longest-running default in World Bank history.

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Seychelles

¶16. (U) The IMF said the authorities' interest in an IMF program was unclear and that a mission was currently in country to conduct the Article IV consultation. In March 2007, the authorities initially expressed interest in an IMF program. During a Fund mission in June and during the IMF/IBRD Annual Meetings in October, however, the authorities said they needed more time to consider a program. Reporting an on-and-off dialogue, the World Bank said that it had no further claims on the Seychelles after the authorities had cleared all arrears in 2006. The Seychelles has one of the highest debt-to-GDP ratios in the world. France said it would underscore to the authorities during a planned bilateral meeting in February that an IMF program would pave the way for a Paris Club debt treatment. (The US is not a creditor.)

Togo

¶17. (U) The IMF reported increased donor interest following successful elections in October 2007, although energy shortages and a current account deficit equivalent to 6.5 percent of GDP represent significant challenges to the current recovery. An IMF staff mission reached preliminary agreement with Togo in December 2007 on a new

three-year PRGF. The program could come to the IMF Executive Board in the second quarter of 2007. Significant arrears to the World Bank and African Development Bank will need to be cleared through an operation similar to what donors arranged for Liberia and Cote d'Ivoire. The IMF said it would ask the Paris Club for financing assurances (a commitment to provide future debt relief) in the near future. The Secretariat will launch a data call once financing assurances have been requested.

Methodological Discussion:
Delivery of Interim Relief by Paris Club Creditors

118. (U) Creditors discussed the Secretariat's January 2007 working paper on how to deal with HIPC countries that reach

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decision point but later fail to implement the necessary reforms under the PRGF program. The working paper outlined three options with the aim of preserving equity among creditors. Since the first two options result in virtually the same outcome for the debtor country, creditors did not express a preference, although Russia noted that it would have no legal mechanism to refund amounts that had been due and paid. The U.S., supported by Australia, Canada, Italy, Spain, and the UK, expressed concern about option three in the paper, noting that it ran counter to our HIPC policy. (Option three entails halting interim HIPC relief and requiring the debtor to clear any arrears to the Paris Club before interim relief can resume. In such a scenario, the amounts collected would not be refunded.) Japan asked whether creditors could, in certain circumstances, provide less debt relief at completion point than what was committed at decision point. (The answer from the Secretariat was no.) The Secretariat took note that option

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three was problematic for many creditors on a political level and promised to revise the working paper, which Germany and several other creditors criticized as overly technical and difficult to understand, for discussion and approval in March.

Methodological Discussion:
Countries Having no Relations with the IMF
and the Paris Club

119. (U) Creditors discussed the latest version of the Secretariat's working paper on countries "away" from the

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Club. Noting that the guidelines set forth in the working paper were stricter than previous Paris Club understandings, the Netherlands, Sweden, Spain, and Canada asked that the working paper explicitly state that the guidelines would not apply retroactively and that, regardless of the status of the debtor country, creditors were free to take bilateral measures to try to collect on the debt.

120. (U) In response to a question from Germany, the Secretariat confirmed that debt swaps were a type of debt

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restructuring and therefore were covered by the guidelines in the paper. Germany asked to revisit this issue at the next meeting. Spain said that when assessing whether bilateral negotiations should be authorized, the Paris Club should consider the number of creditors and the amount of

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debt. Sweden added (and the Secretariat confirmed), however, that the Paris Club's solidarity principle should ensure that claims of large and small creditors are treated equally. The UK suggested adding an additional guideline: where bilateral negotiations are authorized, creditors agree to keep the Paris Club informed. Japan requested language to clarify that the proposed guidelines do not apply to creditors' financial relations with countries that are most unlikely to seek debt relief, such as South Korea. The U.S. stressed that the key principle was that the Paris Club should have a discussion before any creditor decides to initiate bilateral negotiations. The Secretariat will incorporate this feedback and issue a revised working paper.

¶21. (U) In addition to asking how the Club would reach a decision to maintain a multilateral dialogue with a debtor (e.g., would it require a consensus, or would the size of claims be factors?), Russia stated that it has begun an active dialogue with Libya. Debts numbers have yet to be reconciled, as Libya does not recognize Russian claims and has put forth its own claims vis-a-vis Russia. Russia expects negotiations in the near future.

¶22. (U) The U.S. informed the Club that Suriname had recently cleared its ODA arrears and was seeking cancellation of late interest on its non-ODA debt. The U.S. asked whether any creditors had concluded bilateral agreements with Suriname since the last Paris Club discussion in April 2007. The Netherlands responded that Suriname had recently paid off its ODA debt in full with no restructuring. The Secretariat will add Suriname to the March Paris Club agenda.

Methodological Discussion:
Relationships with China

¶23. (SBU) The Secretariat presented its revised working paper on outreach to China and informed creditors that it had contacted staff-level officials at China's Ministry of Finance, Ministry of Foreign Affairs, Ministry of Commerce, and Exim Bank to request a technical meeting in Beijing to discuss PC principles and functions. The preliminary response at the staff level was favorable, but the Chinese officials indicated political level approval is required before agreeing to such a meeting. Noting the generally

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successful OECD outreach effort, PRC sensitivity to being singled out, and the cost of time lost if China declines this second PC invitation, Australia urged the Secretariat to approach several emerging creditors simultaneously. Germany, the Netherlands, Spain, and the UK supported this broader outreach approach, with Germany suggesting that Beijing-based embassy representatives participate in the meeting. Japan encouraged the Secretariat to include SINOSURE (China Export and Credit Insurance Corporation). The Netherlands suggested PC creditors use high-level contacts to convey the need for engagement. The Secretariat believes a two-step approach might succeed: an

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initial technical meeting with the Chinese at the staff level aimed at building confidence, followed by a broader outreach meeting, to which China and other non-Paris Club official creditors would be invited. The Secretariat will ask the Chinese whether they would prefer an initial meeting with the Secretariat, or a broader meeting that might include Paris Club country representatives. The Secretariat also circulated a draft 60-slide Powerpoint

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presentation for use in a meeting with the Chinese and

suggested the 2008 G-8 Hokkaido Toyako Summit might present a good opportunity to raise creditor coordination.

Methodological Discussion:
Prescription of Paris Club Creditors' Claims

¶24. (U) The Secretariat asked whether creditors would be interested in having the Secretariat conduct a survey of how statutes of limitation in Paris Club countries impact their debt collection efforts. The Netherlands said it believed statutes of limitation do not apply to government-to-government debts. Though it had requested the agenda item, Switzerland requested more time to look into the matter. Belgium said a survey would be an onerous exercise, citing the need to analyze the domestic legal regimes of all debtor countries in addition to that of the creditor country. The Secretariat noted the lack of enthusiasm for a survey, but said it would raise the question again at the next Paris Club meeting.

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Methodological Discussion:
OECD Working Group on Export Credits Guarantees
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¶25. (U) Italy and the Netherlands noted that the OECD Working Party on Export Credits and Credit Guarantees had reached agreement on a set of principles and guidelines to promote sustainable lending from export credit agencies to low-income countries. The principles are located on the OECD website at www.oecd.org. An outreach meeting to non-OECD members will be held on February 20. The IMF and World Bank voiced strong support for the principles, noting that the agreement demonstrated an understanding that creditors also have a role to play in debt sustainability, especially where the capacity for debt management is weak. As non-OECD members, Russia said it would try to follow the guidelines on an informal basis, and Brazil said its government was reviewing the agreement.

STAPLETON